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RECENT TAX DEVELOPMENTS IN WESTERN CANADA

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TAX ASSOCIATION. VOLUME XIII

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RECENT TAX DEVELOPMENTS IN WESTERN CANADA

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Two years ago a very general complaint of the growing burden and unfair distribution of provincial and municipal taxation in Manitoba, and more especially in the city of Winnipeg, led to the appointment by the Provincial Government of a commission of inquiry, the report of which was published last December. The commission consisted of seventeen members representing the Provincial Legislature, the Government, the City of Winnipeg, the Suburban Municipalities, the Union of Municipalities, the University of Manitoba, and other organized interests within the province.

At a very early stage of the inquiry, I was deputed to visit the chief cities in the three provinces to the west—Saskatchewan, Alberta and British Columbia, in order to study, and report generally on the provincial and municipal revenue systems of these provinces, and more particularly with reference to the taxation of real property, business and income. The time available for this inquiry was very limited, but the task was materially lightened by the fact that the situation in all three provinces, as it existed up to and immediately after the outbreak of the war in 1914, had been thoroughly examined and described by Dr. Murray Haig,¹ while later developments in Saskatchewan had been, to some extent, covered in a report² prepared by the same authority in 1917.

Through Dr. Murray Haig's "Reports" members of the National Tax Association are doubtless already familiar with the extent of the movement in western Canada, during the period of real estate inflation, towards restricting the basis of local taxation to the unimproved value of land, and with the first fruits of that policy. It was only gradually, however, that the disastrous character of the harvest came to be generally recognized; and only very slowly and reluctantly, by the irresistible logic of financial necessity, were the authorities responsible persuaded of the urgency of a return to sounder principles. The consequent movement towards broadening the basis of taxation is thus of comparatively recent date. It is with the causes and extent of that movement, and the lesson to be derived therefrom, that we are now concerned.

¹ Exemption of Improvements from Taxation in Canada and the United States. (1915).

² Taxation in the Urban Municipalities of Saskatchewan. (1917).

To understand the position clearly, a brief survey of the provincial and municipal tax systems is essential.

PROVINCIAL TAXATION

The Canadian provinces are, in respect of their taxing powers, restricted by the terms of the British North America Act to licenses, and direct taxation within the province for provincial, local and municipal purposes. The customs and excise duties are reserved for the Dominion Government, which has further the right of raising money by any mode or system of taxation, and thus may and does levy direct taxes and licenses for Dominion purposes, such as taxes on banks, insurance, railway and other corporations and companies, the excess profits tax, and the income tax.

The provinces, under the Act of Confederation, are responsible for various services which tend to increase in cost with the progress of the community, such as the administration of justice; education in all its branches; the provision and maintenance of prisons, asylums and hospitals; the building of roads and bridges; and the organization of municipal government. Towards the expense of these services they receive various grants from the Dominion, which together are known as the Dominion Subsidy. In the case of the three prairie provinces, this subsidy is swollen by the grant in lieu of their public lands, the title to which is still retained by the Dominion. But, even thus, it goes only a little way towards meeting the expenses of government. In Manitoba, for example, the Dominion Subsidy, including the sum allowed as income from the school lands fund, amounted in 1919 to approximately one million, nine hundred and twenty thousand dollars, out of a total provincial revenue of nearly nine million dollars.

The popular antipathy, however, to all forms of direct taxation, which has rightly or wrongly been supposed to exist in Canada, made the provincial legislatures for a long time somewhat timid in the exercise of their powers in this direction. For many years they confined themselves practically to corporation and railway taxes and succession duties, by way of supplement to their Dominion subsidies; and were well content to leave to the municipal authorities the unpopularity associated with the direct taxes necessary to provide the revenue for the performance of certain expensive functions such as road making and education, which might reasonably be regarded as more properly pertaining to the province. The case of British Columbia, however, is in this respect to some extent exceptional. The revenue derived from the development of its great natural resources has enabled that province to make very substantial grants to the municipalities in aid of education. Thus in 1919 Vancouver's government grant for schools amounted to \$1.83 per capita.

But within the last quarter of a century the rapid growth in the number and cost of the public services for which the provincial governments have had to make themselves directly responsible, has led to a gradual extension of the field of provincial taxation. Thus in the western provinces we now find automobile taxes; unoccupied (or wild) land taxes; timber area taxes; amusement taxes; taxation of land, or real property generally, in the form of "public revenue" or "supplementary revenue" taxes; and in Alberta an "unearned increment" tax. British Columbia also derives considerable revenue from taxes on various natural resources, and has in addition a provincial poll tax and provincial taxes on personal property and income.

British Columbia is in fact the only province in Canada, save Prince Edward Island, that levies an income tax for provincial revenue purposes. First imposed in 1897, this tax has been repeatedly modified. Looked at from the standpoint of productiveness, its success is now beyond question, the yield being one of the most important items in the provincial revenue. From the point of view of equity, too, it appears to be equally well founded. In 1912 a Royal Commission stated that it was generally regarded as the fairest tax, and recommended its substitution for the personal property tax. The latter, however, still survives, and is treated as an alternative to the income tax in so far as income-yielding personalty is concerned, the greater of the two being taken.

In Alberta and Saskatchewan the income tax exists only as a municipal tax, and in Manitoba it has not as yet been introduced in any form, though, as we shall see, the fiscal situation in the urban municipalities, and especially in the cities, has given rise to a strong demand for its adoption in some form or other.

What the present situation is as regards the municipal taxation we have now to consider.

MUNICIPAL TAXATION

Under the Canadian system, the available sources of the municipal revenue have been the real property tax, the personal property tax or its modern substitute the business tax, the income tax, the special franchise tax, the poll tax, and licenses; and, in rural municipalities, the statute labor tax. British Columbia municipalities have also the right to levy a "wild land" tax, but few do so.

While the statute labor tax still exists in the rural municipalities of Manitoba, and in the district municipalities of British Columbia, it is really a survival the wastefulness of which is now everywhere admitted, and its abolition is only a question of time.

Poll Tax. — The poll tax exists as a municipal tax in Saskatchewan and Manitoba. In British Columbia the road tax is its equiv-

alent, the poll tax being there a provincial tax. It does not apply to persons who pay property taxes, and it is approved by some on the ground that it compels everyone to contribute something towards the municipal revenue. But its enforcement in any year is at the discretion of the Council, and in most cases it is not considered worth the trouble of collection. It is really a survival from a by-gone economic age, and as such, its abolition has been recommended in the report of the recent Commission in Manitoba.

It should be noted, however, that, in their efforts to broaden the basis of taxation under the stress of financial necessity, some western cities have seriously contemplated reversion to the use of even this obsolete fiscal instrument. The cities and municipalities of British Columbia have this year been authorized by the legislature to levy a poll tax in supplement of the provincial tax of that name. In Calgary, too, where as an admitted failure the tax was abolished in 1915, the council is at present discussing the question of its revival.

Licenses.—With regard to licenses, it may be said that in general the consideration of revenue from this source has till lately played a subordinate part to that of police regulation and the protection of the public. In no case have they yielded more than a very small fraction of the municipal revenue. But here again the financial situation of the cities has recently compelled a more careful consideration of the revenue possibilities of the license system. Vancouver, for example, which in vain endeavored to secure from the Provincial Legislature authority to levy a business tax, has been compelled to find a partial substitute in a comprehensive system of licenses. In Edmonton, too, where under the "single tax" regime the licenses had been reduced to insignificance, they were re-introduced two years ago on a broader basis and linked up with a new business tax, the one being set off against the other, and the heavier being taken.

Special Franchise Tax.—The income derived from the cities from the taxation of special franchises is greatly restricted by the extent to which the policy of municipal ownership and operation of public utilities has been adopted, notable exceptions, however, being the Winnipeg Electric Railway and, in the case of Vancouver, the British Columbia Electric Railway. There appears to be much force in the argument that the price charged for the use of a municipally owned utility should be such as will cover its fair share of municipal taxation.

Income Tax.—The municipal income tax is at present a serious contributor to the revenue only in the city of Edmonton. Under Edmonton's original charter of 1904, all incomes in excess of \$1,000 were entered on the assessment roll and taxed at the gen-

eral rate. But in practice the attempt to tax income in this way was conspicuously unsuccessful and the tax was abolished in 1910.

In 1918, however, when the solvency of the city was threatened in consequence of the collapse of the "single tax" experiment, the council obtained authority to levy an income tax on a progressive scale on all income received by residents, or obtained by non-residents from business carried on within the city—in excess of the exemption limits of \$1,000 for an individual without dependent children and \$1,500 for others. The importance of the tax as a source of revenue, however, is greatly lessened by provisions destructive of the principle of a personal income tax, namely, the exemption of income derived from real property within the city, and a further provision that any person whose taxable income does not exceed \$5,000 may set off his income tax on an income up to \$3,000 against his real property tax, if any. A tax on similar lines is in operation in Lethbridge.

In Saskatchewan, the legislation governing the urban municipalities—the cities, towns, and villages—provides for the levying of a tax on incomes in excess of the exemption limits—\$1,000 in the case of single persons and \$1,500 for married persons, but hitherto only the cities of Regina, Saskatoon and Moose Jaw seem to have imposed a direct tax on income, and the yield is in each case absolutely trivial.

A municipal income tax under local administration is always open to objection. As stated in the report on "A Model System of State and Local Taxation" recently issued by this Association, "no local administration of an income tax has ever worked well". But in Saskatchewan there are additional and instructive causes of failure; for the law permits those assessed and taxed in respect of land and buildings to set off their real property tax against their income tax, and no person assessed on any business or special franchise is to be assessed on the income therefrom. The municipal income tax is thus in practice reduced to a tax on salaries, and, even thus, no adequate machinery has been provided by law for its assessment and collection.

Personal Property Tax.—The personal property tax is of small and ever diminishing importance in the fiscal systems of western Canada. In British Columbia, where it is a provincial tax, it continues to exist, as it were, under suspended sentence, its abolition having been strongly recommended by a Royal Commission in 1912, and approved by Government, on the ground of its inequitable incidence, and administrative defects.

In the three prairie provinces the personal property tax was formerly in general use as a municipal tax, but now it exists in only a very few of the towns and villages in Alberta, in the villages of Saskatchewan, and in certain unincorporated village centres within the rural municipalities of Manitoba.

The reasons for its disappearance are such as are familiar to members of the National Tax Association. Personal property is elusive. Its basis under modern conditions is no longer local and it cannot be effectively subjected to local taxation. In respect of it, what has been termed the unacknowledged canon—that if a tax can be evaded it ought to be evaded—is generally applied without scruple. Intangible property in particular easily escapes taxation; and in the case of tangible personalty there are invariably important exemptions, such as household effects, grain, etc. Thus not only is the productiveness of the tax seriously diminished by practical difficulties of administration, but it becomes grossly inequitable in its incidence. Failing to reach the owners of many classes of personal property, the tax falls with excessive weight upon the few it does reach. In particular it tends to become a burdensome tax on the stock-in-trade of the merchant.

For these reasons the personal property tax has been displaced by the business tax in all but a very small minority of the urban municipalities of Alberta, and in the cities and towns of Saskatchewan. Throughout the urban municipalities of Manitoba it has either been formally abandoned, or has fallen in practice into desuetude; and in the cities and in many of the towns and villages its place has already been taken by the business tax. Where it still survives in Manitoba, in the unincorporated village centres, its replacement by a tax on the net profits of business is recommended in the report of the recent Assessment and Taxation Commission.

Business Tax.—In the municipalities of western Canada at present three different species of business taxation are in operation:

1. The rental value tax, at a uniform rate per cent.
2. The rental value tax, with classification of businesses and a different rate for each class.
3. A tax based on floor space measurement, with classification of businesses and a different rate for each class per foot of floor space occupied.

The first species—that of a tax at a uniform rate on the rental value of the premises occupied—has long been in use in the urban municipalities of Manitoba. As early as 1893 the defects of the personal property tax led to its abandonment by the city of Winnipeg, and the substitution of a business tax. For thirteen years, however, this tax was of quite a different type from that now existing, being based on a system of capitalized annual rental value of the premises occupied—and assessment arrived at by taking into consideration a combination of floor space measurement and rental value, with different rates per square foot, according to the class of business. It seems to have been thought that this method would meet the obvious objection to a system based on a rental value

only, that it would favor the wholesale merchants as compared with the retailers. But in practice it was found to result in a tax which had no perceptible relation either to the amount of capital invested or to the net profits of business. Accordingly, after 1906 it was discarded in favor of a tax at a uniform rate on rental value, and in 1909 the present rate of 6 $\frac{3}{4}$ per cent was adopted.

The flat rate rental value tax now exists in all the four Manitoba cities. In Brandon, which adopted it in 1900, the present maximum legal rate is 15 per cent and in Portage-la-Prairie 20 per cent. In 1906 an Act of the legislature made this tax available to all towns and villages of the province, and it has been generally adopted. The present maximum legal rate is 15 per cent of the annual rental value of the premises.

In the towns and villages of Alberta a tax on this basis is now optional, at a uniform rate not exceeding 10 per cent. In 1916 the failure of the compulsory "single tax" and the financial difficulties of the urban municipalities compelled a reluctant legislature to make this concession. The privilege was at first limited to four years from 31st December, 1915, but in 1918 this restriction was removed. In 1919 it was in use in 20 of the 51 towns and 18 of the 108 villages of Alberta.

The second species of business tax—the rental value tax with classification—is now in use in the Alberta cities. In 1917 Edmonton obtained authority to levy a business tax not exceeding 6 per cent of the full annual rental value of the premises, and in 1918 this was amended so as to make it a tax on a graduated scale, running from 6 to 25 per cent of an assessment of the rental value, according to the class of business.

Similarly, Calgary, which in 1915 had secured an amendment to its charter abolishing the personal property tax and substituting therefor a business tax at a uniform rate, not exceeding 6 per cent of the rental value, had this altered in 1918 to a rate "of not less than 6 and not greater than 10 per cent". The council has authority to fix by by-law a different rate per cent for different classes of business. At present it recognizes three different schedules of business on which the tax rates are respectively 6, 8 and 10 per cent.

Finally, the third species of business tax—that which combines the principle of floor space measurement with classification of business—is in use in the cities and towns of Saskatchewan. This was the system introduced in 1904 at the incorporation of the city of Edmonton, where it was in operation till 1911 when the prevalence of "single tax" ideas secured its abolition. The superior merits of the Edmonton business tax in comparison with the old personal property tax soon led to the adoption of the system by other cities throughout the west. In 1906 it was adopted by Regina and Sas-

katoon, and in 1908-9, as the result of a favorable report by the Saskatchewan Municipal Commission, legislation was passed by which the system was extended to all the cities and towns of that province.

Of the total tax levy, including licenses, for 1919 in the city of Regina, the business tax represented $9\frac{1}{2}$ per cent.

The business tax, in any of the forms already described, is certainly as a fiscal instrument, greatly superior to the personal property tax. But it is obvious that no one of these forms is other than a very rough approximation to the ideal of an equitable tax.

Under the old Edmonton plan, as now followed in the cities and towns of Saskatchewan, the differentiation between classes of business, and the adjustment of the different assessment rates are purely arbitrary processes. The tax fails to conform to the principle of faculty or ability to pay, in as much as it falls alike on the prosperous, and decaying businesses, on businesses in the centre of the city and in the outskirts, if only they belong to the same schedule and occupy the same floor space. There is, moreover, no uniformity in the systems of classification adopted in the different cities and towns. Each has its own business assessment schedule, and the consequence is not only a reasonable inequality in the tax rates, but a wholly unjustifiable inequality in the assessment of the same type of business in different places.

On the other hand, the Winnipeg system, now generally prevailing in the urban municipalities of Manitoba, and optional since 1916 in the villages and towns of Alberta—that of a uniform rate on the assessed annual rental value—is admitted to operate inequitably, in the large centres at least, as between those engaged in different classes of business, and in particular to favor the wholesale merchant as compared with the retail trader.

This objection may perhaps be lessened but is by no means removed, by differentiating between different classes of business, as is done in the recently introduced business taxes of the Alberta cities; for the differentiation is inevitably an arbitrary process, in which to attain anything approaching equity clearly passes the wit of man.

But, apart altogether from its defects in respect of equity, the tax based on rental value is open to serious objection from the fiscal standpoint. It is lacking in elasticity, for it cannot be varied as the profits vary, and thus it fails in point of productiveness. Of the general tax revenue, including that from licenses, the business tax in 1919 formed about $6\frac{1}{2}$ per cent in Calgary and scarcely 6 per cent in Winnipeg.

Rental value, floor space measurement and similar devices are simply adopted as external indicia of the net profits of business, taken as the measure of fiscal obligation. Such external signs,

however, are at best poor guides to the average profits of any class of business and no guide whatever to the profit earned in any individual enterprise. Consideration of their defects inevitably suggests the expediency of abandoning such imperfect signs, and levying the business tax directly on the net profits of business. This is the form of business tax approved in this Association's Report on a "Model System of State and Local Taxation"; and its substitution for the existing rental value tax in the urban municipalities of Manitoba has been recommended to the provincial legislature in the report of the recent Assessment and Taxation Commission.

Real Estate Tax.—The taxation of real property, however, in western Canada, as elsewhere, is as it has always been, the financial mainstay of the municipal governments. Abstract reasoning and historical experience alike show that real property—land and buildings—is the most appropriate source of local revenue. It is the one form of property which cannot be concealed and cannot be moved, and thus, where different localities have to be taxed at different rates, it stands out clearly as the most convenient object of taxation. Local administration is in this case, moreover, likely to be the more efficient, since to the assessment and taxation of real estate a knowledge of local conditions is essential, such as only the municipal authorities are likely to possess.

Administrative reasons alone, therefore, apart altogether from considerations of equity, would suffice to account for the tendency shown in the course of history to rely, for the revenue necessary for the maintenance of local governments, chiefly on the taxation of real estate.

But this result which economic forces have brought about is also on the whole that which considerations of equity would seem to dictate. For the owners of real property, while by no means the only beneficiaries, are in a very special sense the beneficiaries of local expenditure, much of which goes to increase their faculty or ability to pay. In the sphere of local finance the benefit basis of taxation is certainly not to be ignored. The real property tax, like the business tax, is often in great degree a *beneficial tax*; and in so far as this is so, it is no real burden on the property owner.

This, it is to be noted, is true not only of property in land but of property in buildings and other improvements. For if municipal expenditure in general tends to enhance the value of urban land, it is an essential condition of the value of buildings and improvements.

EXEMPTION OF IMPROVEMENTS

The benefit principle, therefore, affords no justification for the policy of exempting buildings and improvements, and restricting

the basis of the real estate tax to the unimproved value of land. Nor can such a policy be better grounded on the principle of faculty or ability to pay; for the faculty of the owner of a large business or residential block may well be much greater than that of the owner of many vacant sites.

Yet the policy of exempting improvements from taxation, popularly known as that of the "single tax", or more precisely the "single tax limited", was widely favored, and to a considerable extent adopted in western Canada during the decade ending in 1913.

The thoroughgoing adherents of the "single tax" doctrine in the strict sense, that is, the followers of Henry George who believe that to usher in the golden age it is only necessary "to appropriate rent by taxation", are, in western Canada at least, though highly vocal, not very numerous. It could scarcely be otherwise in a community consisting for the most part of small land owners. But the "single tax" is there generally understood to mean merely the exemption of improvements from taxation, or at most the concentration of municipal taxation on the unimproved value of land; and in this sense the policy was certainly popular in the cities during the period of real estate inflation, and has even yet a considerable following amongst the farmers, by whom the absentee owner appears to be regarded as fair game.

In the rural municipalities of the prairie provinces, where land is used for agricultural purposes only, buildings and improvements have always been exempt from taxation; and the penal taxation of unoccupied land within recent years by means of the provincial "wild land" taxes, is undoubtedly popular with the rural population. It should be noted in this connection that one of the taxation proposals in the "New National Policy" formulated by the Canadian Council of Agriculture, is a direct tax by the Dominion on unimproved land values.

Throughout western Canada, while land is legally if not always actually assessed at its full value, it has long been the generally accepted policy to assess buildings and improvements for taxation at considerably less than their actual value. In Winnipeg they have been assessed at two-thirds (66⅔ per cent) of their value, and at the last session of the legislature this was made the general rule for all the cities, towns and villages in the province. In Saskatchewan and Alberta, under the system inherited from the Northwest Territories regime, improvements were either exempted or assessed at 60 per cent of their value, and this is the percentage at present recognized as the maximum. In British Columbia, while buildings and improvements are nominally assessed under the general Municipal Act at their actual value, they may not since 1892 be taxed on more than fifty per cent of that assessment.

Some differentiation in favor of improvements, as being of limited durability, may be justified, but a deduction of 50, 40 or even $33\frac{1}{3}$ per cent would seem to err on the side of generosity. These deductions, however, are accepted and defended by many who have no sympathy with the doctrine which holds that to tax improvements is to penalize industry, and who entirely repudiate the policy of total exemption, or as it is called "untaxing industry".

The policy of exempting improvements from taxation was first introduced in the municipalities of British Columbia. In 1874 the city of Nanaimo received permission to adopt it, and in 1891 the privilege of local option in assessing improvements at a lower rate than land, even to the extent of total exemption, was extended to the British Columbia municipalities generally. The system spread, at first slowly, but more rapidly during the decade of industrial expansion, speculative activity and real estate inflation, which ended in 1913. By that time nearly two-thirds of the British Columbia municipalities had come to wholly exempt improvements, while a few others taxed them on less than the legal maximum of 50 per cent.

Vancouver City, which later became known to fame as "The city of the Single Tax", had authority under its charter as early as 1891 for the complete or partial exemption of improvements; and in 1895 it brought itself into line with the other municipalities of the province by exempting 50 per cent of the assessment. It was not until the inflation of real estate values had made considerable progress that the process of exempting improvements was continued and completed by successive reductions of 25 per cent in 1906 and 1910. In spite of the reductions the taxable assessment of the city continued to grow by leaps and bounds. In 1906 the combined taxable assessment of land and buildings was nearly 6 million dollars, greater than that of 1905; and in 1911, on land values alone, it was $22\frac{1}{2}$ million dollars in excess of the taxed assessment of land and buildings in 1910.

So also Victoria City, which between 1897 and 1910 had taxed improvements on only 50 per cent of their value, wholly exempted them from taxation in 1911 when the land value assessment alone was $14\frac{1}{2}$ million dollars in excess of the combined taxable assessment of both land and buildings for the previous year.

In Manitoba, so far as the urban municipalities are concerned, buildings and improvements have always been assessed for the real estate tax.

But in Saskatchewan and Alberta the policy of exempting improvements from taxation was inherited in an optional form from the Ordinances of the North-West Territories, when the two provinces were created in 1905.

In Saskatchewan, the "optional single tax" policy was continued by the provincial legislature in the villages. There was in this case no attempt at compulsion but distinct official encouragement, the annual reports of the Department of Municipal Affairs repeatedly commending the "straight land tax" as a system which "makes the non-resident speculator pay the same amount of taxes for his lot as the man who may have a good building situated on a similar lot."

In the session 1910-11 the cities and towns were authorized by the legislature to reduce the assessment of buildings and improvements below the standard of 60 per cent by not more than 15 per cent of their value annually, thus making possible the total exemption of improvements within four years.

All the seven cities took advantage to a greater or less extent of this permission. But none had reached the goal of complete exemption when in 1913 their further progress in that direction was arrested by the financial difficulties consequent on the collapse of the land boom. At that time the highest percentage of the value of improvements assessed was forty-five at Moose Jaw, and the lowest fifteen at Prince Albert and Swift Current.

The "single tax" policy, however, was never really popular with either the villages or the towns; and by 1914, when the inflation of land values was already of the past and the "single tax" fever had reached its height, only a little over one-fourth of the villages had elected to exempt improvements and less than one-fourth of the towns had reduced the assessment below 60 per cent.

In Alberta the traditional "single tax" option, continued by the provincial legislature, had commended itself to only about one-third of the villages and a small minority of the towns when in 1912 a Government favorable to the "single tax" system made its adoption compulsory throughout the municipalities of the province, with the exception of the cities which are governed by their own special charters.

But in the cities of Alberta the policy of exempting improvements, first adopted by Edmonton in 1904, was making rapid progress. In 1914 three of the six cities were wholly exempting improvements while the others were well on the way. Calgary, the largest, had in 1912 reduced the assessment of buildings and improvements to 25 per cent of their value.

The experience of Edmonton, the capital city of Alberta, is especially interesting as illustrating the causes to which the rapid spread of the so-called "single tax" movement was due. Under Edmonton's original charter of incorporation as a city, granted by the North-West Territories Ordinance in 1904, buildings and improvements were exempt from taxation, it being provided that municipal and school taxes should be levied on land, businesses,

income and special franchises. There was also a poll tax on resident males over 21 years of age whose names were not on the assessment roll. In 1910, however, when land values were rapidly rising, the poll tax and income tax were dropped; and in the following year a little agitation on the part of the retail merchants secured the abolition of the business tax and the gradual reduction of licenses till the revenue therefrom was negligible. The different public utilities, moreover, being owned by the city, the right to tax special franchises was valueless and the city thus became dependent for its revenue on the taxation of land values only.

The explanation of the adoption by Edmonton in 1904 of the policy of exempting buildings and improvements seems to have been the existence of large areas of unimproved land within the city in the hands of absentee owners, of whom the most important was the Hudson's Bay Company. The residents, who owned practically all the improvements and controlled the council, naturally took advantage of their power to shift the burden of municipal government on to the shoulders of the absentee landowners.

There can, however, be no question that in Edmonton, as in Victoria and Vancouver, the policy of restricting the municipal tax base to land values was made practicable, for a time, only by the fact that its adoption happened to coincide with a period of rapidly increasing population, industrial development and speculative activity, when land values were advancing at a phenomenal rate.

Some idea of the extent of the rise in land values is to be obtained from the assessments of the cities. It is true that several of the cities continued for a time to inflate their assessments after the period of speculation had ended and land values were rapidly falling. But confining our attention to the decade from 1903 to 1913 when land values were certainly rising, we find that in Vancouver and Edmonton, the two leading "single tax" cities, the expansion of land value assessments was as follows: in Vancouver from \$13,846,000 in 1903 to \$144,975,000, and in Edmonton from \$3,208,000 to \$188,539,000 during the same period. In Calgary, which displayed greater caution in its progress towards exemption of improvements, the assessment at its highest fell far short of the inflated level reached at Edmonton. But even there the land value assessment rose from \$1,956,000 in 1904 to \$120,801,000 in 1913. It should be observed that the increase was in each case accompanied by annexations which considerably extended the areas of the cities.

But in Edmonton and Calgary, and in other Alberta cities, much of the territory annexed and assessed at an inflated value as building sites, was and is simply agricultural land. The speculative real estate owner for the time regarded high assessment as a good advertisement assisting him to unload at a profit; and while the

annual increment in land value continued, and high profits were daily realized or confidently expected, even heavy taxes seemed a matter of small moment.

Altogether, it seems clear that, if we except the belated and shortlived experiment in compulsion applied to the villages and towns of Alberta, the extensive adoption in western Canada of the policy of exempting improvements, and concentrating municipal taxation on the unimproved value of land, is to be attributed, partly no doubt to the widespread diffusion of a sentiment in favor of a system which promised to throw the burden of taxation more heavily on the land speculator and absentee owner, but chiefly to the fact that during the period of real estate inflation the appreciation of land values was such that a tax on that basis yielded nearly all, then all or more than all, the revenue required by the municipal governments. The municipal authorities, with more regard for popularity than principle, simply followed the path of least resistance, and that, under the conditions then existing, led directly to the exemption of improvements and the contraction in other ways of the tax base.

The influence of the "single tax" doctrine, if any, in bringing about this result appears to have been altogether negligible; though the adoption of the policy by the Canadian cities was at the time widely advertised by the official spokesman of the Single Tax League as a triumph for the principles of Henry George.

But nowhere in western Canada was the "single tax" ever in operation. Even in the cities, like Edmonton and Vancouver, where the policy of concentrating municipal taxation on the unimproved value of land had been carried furthest, there still remained a more or less restricted system of licenses, while various provincial and dominion taxes were levied within the cities.

The supporters of the system of land value taxation maintain that it untaxes industry, removes the burden from the shoulders of the improving citizen, and so tends to attract capital and stimulate building and development generally, while at the same time it gets at the "unearned increment" of the absentee speculative owner who is supposed to be a monopolist holding the land out of use and thus thriving by the industry of others.

But, even if the tax on land values were the only tax, it would not mean the untaxing of industry but merely of certain types of improvements such as buildings and fences; for the value of much of the labor and capital spent on the land in preparing it for the use to which it has to be put becomes rapidly indistinguishable from that of the land itself, and is assessed and taxed as part of the so-called "unimproved land value".

The claim that the exemption of improvements stimulates building and development is generally supported by arguments of the

familiar "*post hoc ergo propter hoc*" order which entirely ignore the complexity of causes on which the growth of cities depends. During the decade 1903 to 1913 the cities of western Canada as a whole were prospering, irrespective altogether of their system of taxation.

Land in cities is seldom monopolized, and where there is conclusive evidence that it is being deliberately withheld from the market, to the detriment of the interest not merely of some would-be purchaser but of the community as a whole, the legitimate remedy is not confiscation in the guise of taxation, but the exercise of the government's sovereign right of expropriation with compensation.

But whatever its social effects, any system of taxation must in the long run stand or fall by its financial results. The primary object of taxation is to obtain revenue for the purposes of government; and the defects of the "single tax limited" in this respect soon became apparent. It stimulated expenditure and, once the period of speculative inflation had passed, it failed to produce the needed revenue.

Governments, municipal as well as national, are at the best slow to realize the profound wisdom of Mr. Gladstone's saying: "Good finance consists more in the spending than the collecting of revenue." Lavish expenditure is too often the most direct route to a great if shortlived popularity; and wasteful extravagance is the certain outcome of a system under which the majority of the citizens who are responsible for sanctioning expenditure do not themselves provide the funds.

Under our present system of real estate property taxation, based as it is on capital values, the inflation of land values would in any case have had a pernicious effect on local finance. But when to this was added the influence of exemption of improvements from taxation, and in some cases the abolition of practically all sources of municipal revenue other than land values, the effect was disastrous. As land value inflation was the source of revenue, so the revenue was spent in the promotion of further inflation. Throughout western Canada there are to be seen abundant evidences of this ill-considered expenditure of public funds. In every direction pavements and sidewalks were extended, public utilities constructed, and improvements carried out in anticipation of the remote and uncertain needs of a still unfeathered future.

Expensive improvements in turn involved the anticipation of revenue by the creation of indebtedness on the basis of extravagantly inflated assessments. Then in 1913 came hints of the need of caution, followed by hesitation, suspicion, financial stringency and a rude awakening. Real property values generally, and land values in particular, too often the sole source of municipal revenue.

venues and security for municipal debts, were seen to shrink with amazing rapidity and in many cases to vanish into nothingness, while what was left of the wreckage was swept in the following year by the fiery breath of war.

Real estate, more especially in the form of urban building sites, formerly a highly coveted and appreciating asset, now became an undesirable and burdensome liability. Taxes based on the inflated assessments remained unpaid. Many of those liable for taxes were protected against action by enlistment in the over-seas forces. But, apart from this, great numbers of tax delinquents were either unable to pay or did not consider their holdings worth the sacrifice; while others simply would not pay so long as they felt they could rely on the reluctance of municipal councils to bring matters to an issue by tax sale.

This reliance was in many cases only too well founded. Vancouver City, for example, which had adopted the heroic policy of taxing land values only, for years practically confessed its inability to enforce payments. No tax sale was held by the city between 1909 and 1919, and in the interval the accumulation of arrears had become such as to menace the solvency of the city. From \$728,695 in 1914 they had increased to \$5,456,453 at the close of 1918, a sum considerably in excess of the city's annual tax levy. A tax sale held last year, covering all lands on which taxes were in arrears up to the end of 1915 has, however, somewhat improved the position in this respect.

The growth of arrears of taxes was naturally accompanied by heavy borrowing to meet the current expenses of administration and to finance expensive undertakings lightly entered on in the period of inflation. In 1917 the provision required in way of interest and sinking funds for the service of debt amounted to almost 50 per cent of the city's total expenditure.

Vancouver's experience in this respect was not singular. In 1918 Victoria City was driven to obtain special powers from the legislature to enable it to provide for the collection of its accumulation of tax arrears, and to secure renewal, or extension of time for payment of treasury certificates and bills. In the three years following 1914 the aggregate amount of tax arrears in the municipalities of British Columbia rose from less than six million dollars to almost fourteen million dollars.

In Alberta also the restriction of the tax base, together with the contraction of real estate values, resulted in heavy accumulations of arrears of taxes, and a very general failure, up till last year, to enforce collection by means of tax sales placed several of the cities and towns in serious financial difficulties. Some have had to seek arrangements with their creditors, and the provincial government has had to come to their aid by appointing a commission to assist them in straightening out their financial affairs.

Edmonton's arrears of taxes increased from \$2,560,354 in 1914 to \$6,755,760 in 1918, and the city was then collecting little more than half its tax levy, while for a population of 60,000 it had a general funded debt of \$9,864,000. A tax sale held in 1918 resulted in the great bulk of the properties falling to the city which did not want them and could do nothing with them. They had passed definitely from the category of taxpaying properties. For the arrears of 1914 and 1915 notes were taken by the city. Of the tax arrears at the close of last year, \$3,000,000 represented taxes payable on lands forfeited to the city.

In Saskatchewan as elsewhere accumulation of tax arrears and growth of debt resulted from the collapse of the land boom and the exemption of improvements. And, as Dr. Murray Haig conclusively shows, in his report on "Taxation in the Urban Municipalities of Saskatchewan", the cities with the largest accumulations of tax arrears were those that had gone furthest in the direction of the "single tax". In Saskatchewan, however, the position has been on the whole less serious than in the provinces further west owing to the law having compelled an earlier resort to tax sales. But even thus, it was stated by the president of the Union of Saskatchewan Municipalities at the convention in July last that "there are cities and towns of the province which cannot sell debentures, at all, others only at a high rate of interest and below par."

BROADENING THE BASIS OF TAXATION

Generally speaking, throughout the municipalities of the three provinces where the "single tax" experiment has been tried, the experience has been the same; a hasty adoption of the "single tax" policy—whether voluntarily or under legislative compulsion—during the years of real estate inflation, followed by the rapid contraction and disappearance of land values in 1913-14, and the accumulation of tax arrears and of debts.

In Saskatchewan, where, as we have seen, the approach to total exemption of improvements had been more cautious than further west, the first step in the retreat from an impossible position was taken in 1916, when the cities and towns were authorized to *increase* the assessment of buildings and improvements by not more than 15 per cent per annum till the maximum of 60 per cent was reached. In 1917 the optional exemption of improvements in the villages was abolished, and they now tax buildings and improvements on 60 per cent of their value. The urban municipalities of Saskatchewan have thus returned to their old system, according to which taxes are levied on lands and improvements, businesses (in villages, personal property), income and special franchises.

In Alberta, the home of the compulsory single tax, as early as 1913 it had been found necessary to give conditional authority to many of the towns to levy a business tax for three years and to remove the 20-mill limit to the tax rate on land values. But by 1916 the position was obviously becoming hopeless, and both villages and towns were granted the right to levy a business tax and to tax buildings and improvements on not more than 60 per cent of their value.

The privilege was first given for 4 years but the time restriction has since been removed. The tax rate was first limited to 20 mills but this limit was removed in 1917, by which time the movement towards a broader basis of taxation was well under way, not merely in Alberta but throughout the whole west. In 1919 about half the towns in Alberta had taken advantage of the permission to extend their tax base beyond land values.

In the cities the same forces were at work. Edmonton, in 1917 and 1918 secured amendments to her charter enabling her to levy a tax on improvements assessed at 60 per cent of their value, a graduated rental tax on business, and an income tax. The city, therefore, now taxes not only land but buildings and improvements, business and income. Calgary since 1916 has taxed business and special franchises, and in 1918 obtained authority to raise her assessment of buildings and improvements to 50 per cent of their value. All the six Alberta cities now levy taxes on the value not only of land but of buildings and improvements, and also a business tax. Edmonton, Lethbridge and Wetaskiwin have in addition an income tax, and Calgary a special franchise tax. "Sweet are the uses of adversity." A more complete repudiation of the "single tax" policy, and one better founded, it were difficult to imagine.

In British Columbia also there has been a pronounced movement in the direction of broadening the basis of municipal taxation. Amongst the municipalities there have been within the last five years many defections, voluntary or otherwise, from the "single tax" group.

Vancouver City, too, in 1918 began by taxing improvements on 25 per cent of their assessed value, and last year this was raised to 50 per cent. It also sought authority to levy a business tax but its scheme was rejected by the legislature, owing to opposition organized by the Retail Merchants' Association whose political activities in western Canada do not always make for financial righteousness. In the meantime the city has had to content itself, as already mentioned, with the imperfect substitute of an extended system of licenses. At this year's session of the legislature Vancouver, as well as the other municipalities, was authorized to levy an amusement tax and a poll tax, in supplement of the correspond-

ing provincial taxes, but so far no advantage has been taken by the city of this permission.

Of all the cities of western Canada, Victoria is now the only one which continues the policy of exempting improvements from taxation. It can no longer be described as a popular policy, but a speedy return to a broader basis is in this case rendered difficult by the existence of several large blocks erected under the exemption system on the tacit understanding that it was the settled policy of the city. Even here, however, a return to the taxation of improvements seems only a matter of time and opportunity.

The need of broadening the basis of taxation has naturally been most acutely felt in the cities which had gone furthest in the direction of exclusive reliance on land values for their revenue. But the contraction of land values since 1913 has presented a serious financial problem to all the urban municipalities of western Canada. For it has been necessary to make heavy reductions in the assessments in order to bring them more nearly into accordance with actual values; and this contraction of the tax base has necessitated a rapid rise in the tax rate.

Vancouver City reduced its land value assessment from over 150 million dollars in 1914 to 132 millions in 1919, while the tax rate was raised from 20 mills in 1913 to 24 mills in 1919. In Vancouver the broadening of the base by taxing improvements has somewhat lessened the need that would otherwise have been felt for raising the tax rate.

In Edmonton the net taxable assessment fell from 191 million dollars for land values only in 1914 to a little over 79 millions for land and 60 per cent of the value of buildings combined in 1919, while the tax rate rose within the same period from 17½ mills to slightly over 35 mills. This year (1920) it is 45 mills.

In Regina the total taxable assessment (of land, buildings, business and income) which stood at 73¾ million dollars in 1914, had fallen in 1919 to 41½ millions, of which almost 89 per cent represented real property. During the same period the tax rate rose from 13 mills to 33½ mills.

In Winnipeg the inflation of real property values never reached the heights attained in most of the cities further west; but the assessment has none the less fallen from its highest point of 288 million dollars in 1915 to 236 millions in 1919, while the tax rate has risen from 14 mills to 23 mills.

For some years the rapid rise of the tax rate, due as it has been in no small degree to the steady increase in number and expensiveness of the general or national services performed by our municipal governments—such as education, poor relief, police protection, care of public health, and administration of justice—has given rise to considerable dissatisfaction with the existing distribution of

the burden of taxation. In particular, it has been argued, that the large percentage—in Winnipeg 84 per cent—of the total tax burden levied on the owners of real property is excessive.

It has, perhaps, been too readily assumed that the immediate and apparent impact of the real property tax is identical with its real and ultimate incidence. But there can be no question that under the present system by which real property is taxed on its capital value, the burden of local taxation in the cities falls with crushing weight on the owners of vacant land.

I may here state that I cannot agree with the view which seems to be generally held by economists on this continent, that capital value is a better basis than income for the taxation of real estate. On the other hand, I do *not* maintain that the income from real property should be taxed, for local purposes only, at the same rate as other species of revenue.

The owners of real property, and those engaged in business in the city are in a special degree the beneficiaries of municipal expenditure. This, however, is not so applicable to expenditure on the general services already mentioned. And it is reasonably argued that the revenue required for the maintenance of such services must be raised by taxation which is of an *onerous* rather than a beneficial character, and that such taxation should be levied on the basis of ability to pay. At the same time, the growing wealth of society and the increasing variety of its forms has tended to render the possession of real property less and less satisfactory as a measure of that ability. On these grounds it is held that the municipal taxation of real property and business should be supplemented by a personal income tax.

In accordance with this view the recent Assessment and Taxation Commission in Manitoba recommended to the legislature the introduction of an income tax for municipal purposes, somewhat on the same lines as that now in operation in Wisconsin, and administered as there, not by the local authorities, but by a Provincial Tax Commission. Whether this will be the solution ultimately adopted is as yet uncertain. It may be that an effort will be made to attain the same end by the institution of a provincial income tax for provincial revenue purposes, the legislature at the same time relieving the municipalities of the financial burden of several of the more general or onerous services for which they are at present responsible.

